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CONSEQUENCES OF A RELAXATION OF NON-COMMUNIST CONTROLS ON TRADE WITH THE SOVIET BLOC



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The Intelligence Advisory Committee concurred in this estimate on 16 March 1954. See, however, footnote of the Director of Naval Intelligence, and the Assistant Chief of Staff, G-2, Department of the Army, and the Deputy Director for Intelligence, The Joint Staff, to paragraphs 6 and 24. The FBI abstained, the subject being outside of its jurisdiction.

The following member organizations of the Intelligence Advisory Committee participated with the Central Intelligence Agency in the preparation of this estimate: The intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

CENTRAL INTELLIGENCE AGENCY

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CONSEQUENCES OF A RELAXATION OF NON-COMMUNIST CONTROLS ON TRADE WITH THE SOVIET BLOC

THE PROBLEM

To estimate the economic, strategic, and political consequences to the Soviet Bloc and the non-Communist world of a relaxation of non-Communist controls on trade with the European Soviet Bloc (USSR and European Satellites).

SCOPE

This estimate is addressed to the general consequences of a program of the character and magnitude indicated in the Assumptions and does not isolate the specific effects of decontrol of particular items.

ASSUMPTIONS

1. By "relaxation of non-Communist controls" is meant the elimination of embargo and quantitative controls on shipment to the European Soviet Bloc of all goods except the following, upon which a complete embargo will be maintained:
 - a. arms and war equipment as defined in the international "Reference" Munitions List;
 - b. atomic energy materials and equipment;
 - c. a limited number of items — mostly electronic equipment and metal-working machinery — which incorporate advanced technology and unique know-how;
 - d. tankers, fast merchant ships, and certain specialized kinds of ships;
 - e. a few metals such as molybdenum, cobalt, and nickel of which a great proportion of the total world supply is produced in the Free World; and
 - f. industrial diamonds and selected manufactures incorporating them.
2. Present non-Communist controls on trade with Communist China would be maintained.
3. The US would not impose more stringent controls on trade with the Bloc than its allies did.

CONCLUSIONS

1. Any approach to the problem of Communist-Free World trade must be made in the light of the estimate of NIE-95 and SNIE 11-54, which conclude in substance: (a) that there is no sign that the ideological dynamism of the Communist regime is abating; (b) that the fundamental hostility of the Communist rulers toward the Free World remains unchanged; and (c) that their basic objec-

tives continue to be an expansion of their own sphere of power and the eventual domination of the non-Communist world.

2. Communist proposals and actions in the politico-economic field must be regarded as designed primarily for the advancement of their basic objectives. One of these major objectives is the promotion of self-sufficiency within the Bloc. Bloc trade practices are only in part governed by the normal trade purposes of non-Communist countries.

3. Non-Communist export controls have hampered the development of Bloc economic and military power. The volume of trade between the European Soviet Bloc and the non-Communist world has declined by about 25 percent since 1948. This decline has been partly caused by export controls. It has also been caused, in part, by Bloc policies of self-sufficiency and integration of the Satellites into the Bloc trading area.

4. The relaxation of non-Communist controls on trade with the European Soviet Bloc would probably produce an increase in Bloc imports of decontrolled items on the order of one-half billion dollars annually, but the volume of such imports might for a year or two range as high as one billion dollars a year.

5. Relaxation of non-Communist trade controls would increase Bloc economic capabilities. However, the over-all effect would probably not be significant because:

a. The estimated increase in Bloc imports would be small relative to Bloc output; and

b. Bloc adjustments to non-Communist trade controls and general Bloc progress toward self-sufficiency under controls

have almost certainly reduced Bloc needs for the categories of goods which would be decontrolled.

6. The assumed program or relaxation of controls would improve the Bloc's strategic position. There are almost certainly various bottlenecks in the Bloc economy which would be relieved by the importation of the items assumed to be decontrolled. Certain scarcities would be remedied. In these ways the Bloc economy would gain advantages from the decontrol. However, since we estimate that the assumed relaxation of controls would not significantly increase the total Bloc output of goods and services and would be unlikely to increase the proportion of that output devoted to military production or use, the increase in total Bloc military potential would almost certainly be small.^{1 2}

7. Certain strategic gains would accrue to the Bloc from a relaxation of non-Communist export controls, particularly in the short period following decontrol.

¹ The Director of Naval Intelligence, the Assistant Chief of Staff, G-2, Department of the Army, and the Deputy Director for Intelligence, The Joint Staff, believe that the last sentence of Conclusion 6 should be amended as follows:

"However, since we estimate that the assumed relaxation of controls would not significantly increase the total Bloc output of goods and services and would be unlikely to increase the proportion of that output devoted to military production or use, the increase in total Bloc military potential would probably be small on a quantitative basis. Qualitatively this increase resulting from the assumed relaxation of controls could provide significantly important additions to Bloc military capabilities."²

² It must be borne in mind that under any system of trade controls, there is always danger that individual items capable of conferring strategic advantage may be obtained by the Bloc. This danger might be increased by relaxation of controls.

Their value to the Soviet Bloc would be increased if Bloc leaders anticipate the outbreak of general war in the near future. Over the long run Bloc military capabilities would be somewhat enhanced by the slightly higher rate of economic development and the greater flexibility which a relaxation of non-Communist trade controls would make possible.

8. Increased trade with the Bloc consequent upon relaxation of controls would have no significant direct economic effect on the US and only a modest over-all economic effect on the non-Communist world. However, some Western European countries would anticipate significant economic gains from expansion of trade with the Bloc. It is improbable that such trade as is likely to result from the relaxation of export controls would have any significant effect upon the military potential of the non-Communist world.

9. The relaxation of non-Communist controls on trade with the European Soviet Bloc, including the Soviet Far East, would considerably reduce the effectiveness of existing non-Communist controls on trade with Communist China. In this situation, maintenance of these controls

would cause resentment in the non-Communist countries with an economic interest in trade with Communist China, particularly Japan.

10. The governments of most countries participating in the non-Communist export control system now believe that the effect of present controls on Soviet Bloc power is disproportionately small in relation to the domestic political disadvantages and the loss of trade opportunities which these controls entail. The present arrangements are, therefore, a growing source of irritation and impatience with US leadership and of differences between other members over relative stringency of controls and enforcement. If controls are maintained as at present, dissension over them will contribute to the vulnerability of certain non-Communist countries, for example France and Italy, to Bloc economic and psychological warfare. A relaxation of trade controls would probably influence the COCOM countries which favor it to be more cooperative in administering the remaining controls, although pressures for further decontrol of individual items will probably recur.

DISCUSSION

I. EFFECT OF NON-COMMUNIST EXPORT CONTROLS UPON THE SOVIET BLOC

11. Non-Communist export controls, which have been developed progressively since March 1948, have had some effect in retarding the Soviet Bloc's over-all economic development and the growth of Bloc military potential. Both of these effects have been due, in part, to the burden of the economic adjustments forced upon the Bloc by deprivation of imports of strategic goods. The strain involved in effecting these adjustments was greatest in the period immediately following the imposi-

tion of controls and has continued, though in diminishing intensity. Growth of Bloc military potential has been hindered also directly by controls upon the export of non-Communist arms and war equipment. Controls on arms and war equipment would not be affected by the program of decontrol assumed in this estimate.

12. It is probable that by this time the Bloc has carried out extensive adjustments to the imposition of non-Communist export controls by reallocating scarce materials from the less strategic industries, by developing substitutes,

and by providing new capacity for production of formerly imported goods. However, even after such adjustments have been made, it probably still costs the Bloc more to produce most of the controlled items than it would to purchase them in the markets of the non-Communist world. The Bloc's continuing desire for certain items controlled by the non-Communist export control system is clearly indicated by the elaborate and costly means by which the Bloc seeks to import these items. By contrast, the Bloc has not, at least until recently, exerted itself to expand its imports of consumer goods and other noncontrolled items.

13. It is evident, therefore, that non-Communist export controls have hampered the development of Bloc economic and military power. The problem is to determine how much the Bloc's economic and military power would be enhanced by the assumed relaxation of controls, as well as to determine the effects of such a decontrol program upon the cohesion and strength of the non-Communist world.

II. LEVEL AND PATTERN OF TRADE BETWEEN THE BLOC AND THE NON-COMMUNIST WORLD IN THE EVENT OF A RELAXATION OF TRADE CONTROLS

The Soviet Bloc

14. The volume of trade between the European Soviet Bloc and the non-Communist world has declined by about 25 percent since 1948. This decline has been partly caused by export controls. It has also been caused, in part, by the Bloc policies of self-sufficiency and integration of the Satellites into the Bloc trading area. It is unlikely that the Kremlin would make any important modification of these basic policies as a consequence of the relaxation of non-Communist trade controls. The Soviet Bloc would probably not seek to resume the importation of decontrolled items at the level and pattern of the period immediately preceding the imposition of controls.

15. We have estimated that, "The Bloc could almost certainly expand its external trade to, say, two or three times the 1952 level without markedly retarding its progress toward self-

sufficiency."³ Most of the goods that the Bloc is currently and legally importing are probably important enough to the Bloc so that their importation would continue even after presently controlled items became available. Hence the removal of controls would almost certainly result in an increase in the total volume and value of Bloc importations from the non-Communist world, not simply in a substitution of new imports for those presently purchased. To the extent that the efforts of the Bloc to maintain or to increase trade with the non-Communist world have in the past been determined by the economic warfare objective of fostering dissension in non-Communist countries over export controls, the relaxation of controls would reduce the vigor of such efforts.

16. Relaxation of controls on trade with the European Soviet Bloc would permit Communist China to obtain the decontrolled items via European Bloc countries. Communist China would thereby be enabled to obtain from non-Communist sources commodities which it cannot now import from such sources and which the European Soviet Bloc is unwilling or unable to supply in adequate quantity. The extent to which Communist China could obtain additional imports in this manner would depend on decisions of the Kremlin which would be affected by considerations of general Sino-Soviet relations, as well as by the increased ability of the European Soviet Bloc to obtain decontrolled items from non-Communist countries. Moreover, the increase in trade between the European Bloc and the non-Communist world might also enable Communist China to develop additional export outlets in non-Communist countries through European Bloc countries and thus increase Communist China's ability to pay for imports. These developments could not be prevented by present controls on shipping services and bunkers in connection with trade with Communist China, and would be facilitated if the relaxation of controls on trade with the Euro-

³ See NIE 10-54, "Soviet Bloc Economic Warfare Capabilities and Courses of Action," 9 March 1954, paragraph 4.

pean Soviet Bloc were to make non-Communist ships more freely available for sale to European Bloc countries.

The Non-Communist World

17. Under conditions short of war or the immediate threat of war, it is likely that expanding productive capacity in the non-Communist world will result in increasing pressure to find markets for the goods of the type which would be decontrolled. There will be enough economic slack in most non-Communist countries, even in the absence of recession, to interest them in increased sales to the Bloc. Ability to supply additional exports on a continuing basis may be assumed. In the event of a significant contraction of total demand in the non-Communist world, the pressure to find market outlets in the Bloc would increase considerably.

Effects of Relaxation of Controls upon the Level and Pattern of Trade

18. If the European Soviet Bloc responded to the assumed relaxation of trade controls by resuming the importation of decontrolled items at the 1948 level, adjusted upward in proportion to the growth of the European Bloc economy since 1948, the annual volume of Bloc trade with the non-Communist world would probably undergo an increase on the order of \$500 million. This calculation can only be taken as a rough guide to the results of relaxation of controls. On the one hand, Bloc adjustments to non-Communist trade controls and general Bloc progress toward self-sufficiency under controls have almost certainly reduced Bloc needs for the categories of goods which would be decontrolled. On the other hand, it is possible that the Bloc would take advantage of decontrol to depart temporarily from its long-run policy of reducing external trade, in expectation of achieving self-sufficiency at higher levels of output. In this event, Bloc trade with the non-Communist world might, for a year or two, exceed present levels by as much as \$1 billion.

19. In view of the time necessary for trade negotiations, production, and delivery, a

period of from two to three years would probably be required before the maximum effects of the relaxation of controls were felt. It is also probable as a consequence of a continuation of Soviet Bloc policies of self-sufficiency that there would subsequently be a decline in Bloc trade in relation to income and total world trade.

20. How the increase in Bloc imports would be distributed among the decontrolled items is impossible to determine. It is probable that the Bloc would be particularly interested in importing decontrolled items in such categories as precision instruments, chemical equipment, electronic equipment, diesel engines, and special-purpose ships. The Bloc would probably also desire to import some items of transportation equipment, certain types of ball and roller bearings and high alloy steel, certain types of lubricants and specialized petroleum products, and possibly some types of synthetic rubber. Metals which it is likely to wish to import on a significant scale include copper and possibly lead. The decontrolled goods which the Bloc would be most likely to want to buy would have to come mainly from Western Europe and the US.

III. EFFECTS OF A RELAXATION OF TRADE CONTROLS UPON THE SOVIET BLOC

Economic

21. The over-all effect upon the European Bloc economy of the assumed relaxation of trade controls and the resultant increase in trade with the non-Communist world would depend upon the extent to which deprivation of the items proposed for decontrol limits Bloc output and the extent to which free access to non-Communist sources of these items would stimulate the growth of Bloc output. Although it is clear that the Bloc would benefit from decontrol of these items, the adjustments made by the Bloc in response to the imposition of trade controls have gone sufficiently far to make the present importance for economic growth of imports of these items less than it was at the time the controls were imposed. Quantitatively, the effect upon the Bloc of a continuation of controls on the cate-

gories proposed for decontrol is the difference between what it now costs the Bloc (in terms of economic resources) to procure those items by all means (including not only domestic production but also illegal imports and payment of premium prices), and what those items would cost if purchased in non-Communist markets in the absence of control. On this basis it is estimated that an increase of one-half to one billion dollars in trade in the decontrolled items would result in a net economic gain to the European Bloc of the order of \$300 to \$600 million a year, or about a quarter to a half of 1 percent of European Bloc GNP.

22. There are almost certainly various bottlenecks in the Bloc economy which would be relieved by the importation of the items assumed to be decontrolled. Certain scarcities would be remedied. In these ways the Bloc economy would gain advantages from the decontrol. We believe it unlikely, however, that such expansions in individual sectors of the Bloc economy as would result from the assumed importations after decontrol would significantly modify the estimate of the contribution to over-all Bloc economic capabilities as stated in paragraph 21.

Strategic

23. The Bloc would gain a strategic advantage from a relaxation of non-Communist export controls which cannot be adequately measured by the comparatively slight effect which such a relaxation would have on the growth of Bloc GNP or on military expenditures. If the increase in rate of growth of GNP were disproportionately concentrated in the fields of military and military-supporting production, the Bloc would get a considerable strategic advantage from its increased access to non-Communist markets.

24. We believe, however, that the assumed program of relaxation of controls would not greatly advance the rate of growth of the Bloc's military potential, assuming controls to be effectively maintained on the categories listed in the Assumptions, and specifically on items constituting bottlenecks to military production. In the light of the various fac-

tors determining the Bloc's over-all allocation of resources, we believe that the assumed program of relaxation of controls would probably not lead the Bloc to increase the proportion of its resources allocated to military use. Since we estimate that the assumed relaxation of controls would not significantly increase the total Bloc output of goods and services and would be unlikely to increase the proportion of that output devoted to military production or use, the increase in total Bloc military potential would almost certainly be small.⁴

25. Certain strategic gains would accrue to the Bloc from a relaxation of non-Communist export controls, particularly in the short period following decontrol. The opportunity to build up strategic stockpiles of such materials as copper and lead, to acquire certain kinds of machinery and equipment, and to build up its merchant fleet, would be particularly useful if the Bloc anticipated the outbreak of general war⁵ in the near future. Over the long run Bloc military capabilities would be somewhat enhanced by the slightly higher rate of economic development and the greater flexibility which a relaxation of non-Communist trade controls would make possible.

Political

26. The relaxation of non-Communist export controls as assumed would not significantly affect the political cohesion of the European Soviet Bloc. However, the continuation of

⁴ The Director of Naval Intelligence, the Assistant Chief of Staff, G-2, Department of the Army, and the Deputy Director for Intelligence, The Joint Staff, believe that the last sentence of paragraph 24 should be amended as follows:

"Since we estimate that the assumed relaxation of controls would not significantly increase the total Bloc output of goods and services and would be unlikely to increase the proportion of that output devoted to military production or use, the increase in total Bloc military potential would probably be small on a quantitative basis. Qualitatively this increase resulting from the assumed relaxation of controls could provide significantly important additions to Bloc military capabilities."

⁵ See SNIE 11-54, "Likelihood of General War Through 1957," 15 February 1954.

present controls over trade with Communist China might occasion some friction between China and the USSR if the Kremlin exploited its monopolistic position as agent for Chinese purchases of decontrolled items. While the Bloc would probably regard the relaxation of controls as in part removing an important target of psychological warfare in the non-Communist world, Bloc propaganda would almost certainly attempt to portray the relaxation as a victory for the Communist "peace campaign." Bloc economic planners, although they would be quick to take advantage of the opportunities offered to increase imports of scarce items, would nevertheless be inclined to view the relaxation with suspicion and for some time after would be prepared for a reversal of non-Communist trade policy. The fundamental hostility of Bloc leaders to the non-Communist world would remain unchanged.

IV. EFFECTS OF A RELAXATION OF TRADE CONTROLS UPON THE NON-COMMUNIST WORLD

Economic

27. The increase in trade between the non-Communist world and the Soviet Bloc which would result from relaxation of trade controls, would have only a modest over-all economic effect on the non-Communist world. In the next several years, however, such an increase in trade would be attractive to some Western European countries. Although the underlying economic position of most Western European countries is now stronger than at any time in the postwar period, Western Europe is likely to have unutilized capacity in the chemical, metallurgical, and engineering industries. These industries could readily supply the increase in exports to the Soviet Bloc without curtailing exports to other markets. Some non-Communist raw-materials-producing countries would also be benefitted, but only moderately. Increased trade with the Bloc would have no significant direct economic effect on the US.

28. Increased trade with the Bloc would, however, offer dollar-saving opportunities for Western Europe. The Bloc could increase by

about one-third of a billion dollars its present exports to Western Europe of grain, timber, sugar, and other primary products to replace purchases from the dollar area. In addition the Bloc could sell gold to Western Europe in the event of an import surplus. Although dollar savings are less important to Western Europe than formerly because of the improved dollar position of the area, they may become of increasing significance after 1955, if US economic aid and extraordinary dollar expenditures drop sharply.

29. Most of the underdeveloped countries in the non-Communist world stand to gain little economically from such trade as is likely to result from the relaxation of trade controls, and may actually suffer an economic loss as a result of such trade. On the one hand, the only strategic commodities of any economic significance produced by these countries which might be decontrolled are copper and lead. With decontrol Bloc imports of these and certain other minor items might amount to \$50 million per annum at the most. On the other hand, the Bloc will seek to pay for its increased imports chiefly through sales of primary products. These exports by and large will compete with the exports of underdeveloped countries in the non-Communist world and could depress already weakening prices for such products as wheat and manganese.

30. An increase of trade between non-Communist countries and the Bloc based on Bloc imports of decontrolled items would, if concentrated in certain of the weaker non-Communist countries, tend to establish a degree of economic dependence in those countries on the Bloc which the Bloc could exploit for economic warfare purposes.⁶

Strategic

31. It is improbable that such trade as is likely to result from the relaxation of export controls would have any significant effect upon the military potential of the non-Communist world. Relaxation of controls might

⁶ See NIE 10-54, "Soviet Bloc Economic Warfare Capabilities and Courses of Action," 9 March 1954.

contribute to a relaxation of tensions between the non-Communist world and the Bloc. Any significant relaxation of tensions would probably lead some non-Communist countries to reduce their military expenditures.

Political

32. The present international system of export controls commands at best lukewarm support in the non-Communist world outside the US. The other members of the Coordinating Committee for the international trade control program (COCOM) regard the present arrangements as no longer appropriate to a period of apparent relaxation of tensions and view them as disproportionately costly in relation to their effect upon Bloc economic and military capabilities. They consider that these measures will not in the long run make an appreciable difference in Soviet Bloc capabilities relative to the capabilities of the non-Communist world. They believe that in the short run the risk of general war, while not absent, is not great enough to warrant foregoing the gains from trade which they believe would follow the relaxation of controls. These governments, moreover, are under frequent pressure from various business and labor groups to authorize particular transactions now precluded under existing international restrictions. The present arrangements are, therefore, a growing source of irritation and impatience with US leadership and of differences between other members over relative stringency of controls and enforcement.

33. If controls are maintained as at present, future COCOM deliberations both on policy and on questions of particular transactions will probably be marked by persistent UK reluctance to support the US position. Since the other members of COCOM have never been willing to go further than the UK and have generally followed the latter's lead, the US will probably meet increasing opposition and progressive erosion of the present control system through the granting of exceptions and

the relaxation of enforcement. However, the UK and the other members of COCOM will almost certainly not choose to run the risk of breaching their relations with the US over the issue of trade controls.

34. If controls are maintained as at present, dissension over them will contribute to the vulnerability of certain non-Communist countries, for example France and Italy, to Bloc economic and psychological warfare.

35. COCOM countries would probably find the short list of strategic items which would be retained under the assumed program of relaxation easier to administer and enforce than the present lists, and the character of the items on the short list is such as to make disputes on the retention of individual items less frequent. A relaxation of trade controls would probably influence the COCOM countries which favor it to be more cooperative in administering the remaining controls, although pressures for further decontrol of individual items will probably recur.

36. The relaxation of non-Communist controls on trade with the European Soviet Bloc, including the Soviet Far East, would considerably reduce the effectiveness of existing non-Communist controls on trade with Communist China. In this situation maintenance of these controls would cause resentment in the non-Communist countries with an economic interest in trade with Communist China, particularly Japan.

37. For some of the weaker non-Communist countries, a large expansion of trade with the Bloc could increase Soviet political influence. We believe that the Bloc would make a relaxation of controls the occasion for intensifying its efforts to augment the size and number of its overseas trade missions and establishments, and that some non-Communist states would permit such augmentation. Whatever success the Bloc achieves in this regard will contribute to its potential for espionage, subversion, and propaganda.